Comments on Part 704 ANPR, Corporate Credit Unions

General

Following are comments on the Advanced Notice of Proposed Rulemaking (ANPR) for Part 704, labeled by section as designated in the ANPR.

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The Role of Corporates

Section 1

Sub-Section	Comment
Payment System	It is our opinion that payment services (and perhaps short-term liquidity services) should be seperated from longer-term investment services. Priced correctly, payment services should be self-supporting; particularly if consolidation can be utilized to leverage economies of scale. Seperation of the corporate credit unions' payment and investment services can be accomplished with separate charters or by creating a subsidiary structure with an appropriate legal firewall to protect the presumably less-risky payment services arm from the risks inherent in the investment services arm. In any event, corporate credit unions should continue to be allowed to offer investment services in some fashion.
Liquidity Management	The existing corporate credit union product lines and services are appropriate when managed correctly and appropriately segregated for the purpose of risk containment. Liquidity should remain a core service of the corporate system even if separation from payment services or longer term investment services is necessary to ensure safety.

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The Role of Corporates (continued)

Sub-Section	Comment
Field of Membership	While consolidation of the corporates may be desirable to secure economies of scale, it is not necessary to positively restrict corporate credit unions' fields of membership. The burden of ensuring an appropriate level of risk in corporate credit unions should reside with the due diligence processes of natural person credit unions.
Investment Authority	Expanded investment authority remains appropriate for corporates providing investment services. In addition to tasking natural person credit unions with sufficient risk assessment and monitoring processes for the purpose of appropriate due diligence, the NCUA must also ensure that examiner sophistication is sufficient to provide appropriate oversight of the expanded investment authorities of the corporates.
Two-Tiered System	There is no continuing need for a two-tier corporate system. The current tiered system has generated an unacceptable level of risk from a "single point of failure"—the wholesale corporate credit union. Services offered by the existing wholesale corporate credit union can be obtained elsewhere if needed by the remaining "retail" corporates.

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Corporate Capital

Section 2

Sub-Section	Comment
Core Capital	Appropriate capital levels should be determined based on the specific corporate credit union charter (or services offered), with an investment services charter requiring a higher level of core capital relative to a payment services charter.
Membership Capital	Withdrawals of membership capital should not be conditioned on a corporate's ability to meet all applicable capital requirements following the withdrawal. Corporates should manage capital and be provided with alternatives and/or remedies to account for possible withdrawals. Natural person credit unions should be able to withdraw capital based on market conditions and without regard for the regulatory limitations of the corporate.
Risk-Based and Contributed Capital	Contributed capital should not be mandated of natural person credit unions seeking corporate credit union services. Rather, pricing should be used to differentiate between members maintaining contributed core capital with the corporate and nonmembers of the corporate.

Permissible Investments

Section 3

It is our opinion that the market should be influential in determining corporate credit union investment offerings and risk levels—not regulations intended to eliminate risk.

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Credit Risk Management

Section 4

For share insurance purposes, the NCUA needs to be satisfied with the risk management processes implemented in the corporates. Regulatory and examination oversight of the corporates should be on a par with natural person credit unions.

Whether risk evaluations are conducted by independent parties or the NCUA, the process and outcomes should be made more transparent so that natural person credit unions are better able to perform the necessary due diligence to arrive at a satisfactory level of risk placed with the corporates. To facilitate this, regulatory and risk ratings should be published to provide natural person credit unions with the necessary access to pertinent information.

Asset Liability Management

Section 5

Reinstating net interest income modeling and stress testing would seem prudent for corporate credit union regulations.

Corporate Governance

Section 6

Corporate credit union board members should be individually able to demonstrate appropriate standards of knowledge and expertise. Outside directors should be allowed and encouraged and may be best facilitated by allowing compensation of corporate credit union board members. It is our opinion that corporate board members should have term limits similar to Federal Reserve District board members.

Further, for the sake of better transparency and due diligence, corporate credit union members should have greater acces to salary and benefit information of senior management and the board.
